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INTELLIGENCE MEMORANDUM

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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INTELLIGENCE MEMORANDUM

SUBJECT: Clandestine shipments to Soviet Bloc increasing

The volume of strategic goods exported to the Soviet Bloc in evasion of Western export controls was significantly larger in 1952 than during the previous year.

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The most important commodities being clandestinely acquired by the Soviet Bloc are electronic materials, hydro-electric generators and turbines, anti-friction bearings, non-ferrous metals, fabricated steel, metal alloys, rubber, chemicals and antibiotics.

The volume of some items obtained through evasion of controls is greater than that obtained legally. It is estimated, for example, that in 1951 three times as much lead and copper were shipped to the Orbit clandestinely as through normal trade channels.

The Orbit's legal trade with Western Europe, however, has fallen off steadily since the war. The total value of legal trade in 1952 between the Bloc and the West is estimated at between 1.6 and 1.7 billion dollars each way; COCOM countries were authorized to ship some \$13,600,000 worth of List I strategic items to the Bloc. Satellite countries have been making strenuous efforts to increase the quotas of such strategic goods in new trade agreements with Western Europe. Very large quantities of antibiotics, not controlled by COCOM, are being exported to the Bloc for current use and stockpiling.

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The rapidly expanding Bloc electronics industry is dependent on the West for testing equipment, strategic metals and other material components, most of which are subject to Western controls. An effective embargo against such shipments to the Orbit could reduce its electronics production by as much as 50 percent. The Satellite countries are also making strenuous efforts to obtain anti-friction bearings from the West, particularly sizes which are embargoed.

Imports by the Bloc from the West under trade agreements are generally paid for by exports, whereas clandestine imports are usually financed by letters of credit or transfers of hard currency.

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Full adherence by the COCOM countries to the agreed control system would reduce the volume of transit trade. Other factors, however, portend continued high levels and even further increases. The COCOM system is still not always effective and can be evaded by ostensible consignment of goods to non-COCOM countries. Other strategic shipments originate in non-COCOM countries. Channels of supply and patterns for evading controls have become firmly established. A gradual shift to a buyers' market has taken place in many Western industries. Finally, Soviet Bloc needs for strategic materials are growing with the expansion of its industrialization program.

The urgency attached to Satellite procurement of these goods is reflected in a willingness to pay premium prices, in some cases more than twice those of the world market. The importance of this clandestine trade to the Bloc is greatest for some war-supporting industries. Its complete severance, however, would probably not appreciably impair over-all levels of Bloc production, but would serve rather to slow the Bloc's present rapid rate of industrial expansion.

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